

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 19373 01 OF 03 090311Z
ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00
IO-13 INT-05 /113 W
-----114582 090430Z /12

P 090213Z DEC 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8963

INFO AMEMBASSY KATHMANDU PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 3 MANILA 19373

USADB

FOR NAC AGENCIES

E. O. 11652: NA

TAGS: EAID, EFIN, NP

SUBJECT: PROPOSED ADB LOAN FOR SAGARNATH FORESTRY DEVELOPMENT
PROJECT (NEPAL)

SUMMARY: ADB MANAGEMENT PROPOSES \$4.9 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS AND \$50,000 TA GRANT TO NEPAL TO
FINANCE PART OF FOREX COST OF SAGARNATH FORESTRY DEVELOPMENT
PROJECT. UNDER CO-FINANCING ARRANGEMENT, OPEC FUND PLANS TO
FINANCE REMAINING \$3.0 MILLION IN FOREX COSTS. PROPOSED
PROJECT WILL REFOREST 10,000 HA. WITH FAST GROWING SPECIES
OF EUCALYPTUS, TEAK AND SISOO FOR INDUSTRIAL AND HOUSEHOLD
FUELWOOD NEEDS IN TERAJ AREA. PROJECT SITE IS LOCATED IN
CENTRAL TERAJ REGION, AN AREA CHARACTERIZED BY LARGE PATCHES
OF DEPLETED INDIGENOUS FORESTS. WHILE FORESTS ACCOUNT
FOR 4.2 MILLION HA. OR 29 PERCENT OF COUNTRY'S LAND AREA,
ACCESSIBLE FORESTS ARE LIMITED TO ONLY 1.6 MILLION HA. OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 19373 01 OF 03 090311Z

WHICH ABOUT 1 MILLION HA. ARE LOCATED ON TERRAIN TOO
RUGGED TO ALLOW SAFE HARVESTING, BUT ARE EXTREMELY
IMPORTANT FROM VIEWPOINT OF WATER SHED PROTECTION.
PROJECT AREA IS WITHIN ONE OF MOST ACCESSIBLE REGIONS
IN COUNTRY THROUGH WHICH EAST-WEST HIGHWAY TRAVERSES.
PROJECT IS ESSENTIALLY GOVERNMENT DEMONSTRATION FOR
POSSIBLE FURTHER DEVELOPMENT OF DEPLETED HILL AREAS.

ECONOMIC INTERNAL RATE OF RETURN IS 41 PERCENT AND FINANCIAL INTERNAL RATE OF RETURN IS 18 PERCENT. PROPOSED PROJECT IS DIRECTED AT ONE OF NEPAL'S MAJOR PROBLEMS - RAPID DEPLETION OF ITS FOREST RESOURCES. WHILE PROJECT WILL SERVE TO ALLEVIATE SMALL PART OF VERY LARGE PROBLEM, IT NEVERTHELESS SERVES HIGHLY PRODUCTIVE REGION IN COUNTRY WITH GROWING POPULATION. HELPING RESOLVE REFORESTATION PROBLEM IN THIS AREA MERITS SUPPORT, THEREFORE, RECOMMEND FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R135-77 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN AND GRANT POUCH ADDRESSEES NOVEMBER 25. BOARD CONSIDERATION SCHEDULED DECEMBER 20, 1977.

2. ADB MANAGEMENT PROPOSING \$4.9 MILLION LOAN FROM SPECIAL FUNDS AND \$50,000 TA GRANT TO NEPAL FOR SAGARNATH FORESTRY DEVELOPMENT PROJECT IN CENTRAL PLAINS OF TERAI. PROCEEDS WILL FINANCE PART OF FOREX COST OF PLANTATION ESTABLISHMENT, LUMBER PROCESSING FACILITIES, ROAD CONSTRUCTION, COMMUNITY FACILITIES, TRAINING AND CONSULTANT SERVICES. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD AND ONE PERCENT ANNUAL SERVICE CHARGE. KINGDOM OF NEPAL OF BORROWER AND FOREST PRODUCTS DEVELOPMENT BOARD (FPDB) IS EXECUTING AGENCY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 19373 01 OF 03 090311Z

3. MOST OF NEPAL'S 4.2 MILLION HA. OF FORESTS ARE INACCESSIBLE, HOWEVER, THOSE THAT ARE ACCESSIBLE ARE LOCATED IN THE TERAI, THE ADJOINING HILL COUNTRY AND IN VALLEYS OF INNER TERAI BETWEEN TWO MOUNTAIN RANGES. FUELWOOD UTILIZATION DOMINATE FOREST PRODUCTION IN NEPAL AND IN RECENT YEARS INCREASED COSTS OF IMPORTED FOSSIL FUELS HAVE LED TO INTENSIFICATION IN SUBSTITUTION OF WOOD AS A FUEL. IN TERAI, FOR EXAMPLE, SUBSTITUTION IS VIRTUALLY COMPLETE IN TOBACCO-DRYING AND BLOCK-MAKING INDUSTRIES. SHORTAGE OF FUELWOOD IN MAJOR CONSUMING CENTERS, KATHMANDU VALLEY AND EASTERN AND CENTRAL TERAI, HAS FORCED FUELWOOD SUPPLIERS TO TRAVEL DISTANCES IN EXCESS OF 150 KM. COMMERCIAL EXPLOITATION OF FORESTRY RESOURCES IS POOR WITH SAWMILLS CURRENTLY WORKING UNDER CAPACITY. FURTHERMORE, PROSPECTS FOR FUTURE EXPANSION ARE NOT FAVORABLE. GOVERNMENT HAS RESTRICTED EXPORTS OF BOTH LOGS AND FUELWOOD IN RECENT YEARS AS INTERNAL DEMAND INCREASED. A NATIONAL FORESTRY DEVELOPMENT PLAN, FORMULATED IN 1976, EMPHASIZES PROTECTIVE ROLE OF FORESTRY AS WELL AS SOCIO-ECONOMIC IMPORTANCE OF

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 19373 02 OF 03 100136Z
ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00
IO-13 INT-05 /113 W
-----001428 100142Z /62

P 090213Z DEC 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 8964
INFO AMEMBASSY KATHMANDU PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 3 MANILA 19373

C O R R E C T E D C O P Y (GARBLED TEXT)

USADB

FOR NAC AGENCIES

FOREST PRODUCTION. STRATEGY AND PRACTICES OF PLAN SEEM
APPROPRIATE FOR NEPAL GIVEN ITS SHRINKING FOREST RESOURCES
AND RAPIDLY INCREASING DEMAND FOR FUELWOOD.

4. PROPOSED PROJECT OBJECTIVES ARE BOTH ECONOMIC AND
SOCIAL. IT IS SELF CONTAINED ACTIVITY, DESIGNED TO
REFOREST 10,000 HA. AND ESTABLISH COMMUNITY FACILITIES,
ROADS, SEED NURSERY AND HOUSING ADEQUATE TO SUSTAIN 850
PERSON LABOR FORCE WITH FAMILIES. PROJECT IS PROPOSED
AS PROTOTYPE TO PROVIDE MODEL FOR REPLACEMENT OF OTHER
DEPLETED FOREST AREAS IN EASTERN AND CENTRAL TERAI.
PROPOSED PROJECT INCLUDES SIX MAJOR COMPONENTS; (A)
ESTABLISHMENT AND MAINTENANCE PLANTATION OF SEVERAL
RAPID GROWING VARIETIES, (B) RESIDUAL FOREST HARVESTING
DURING FIRST TEN YEAR ROTATION TO CLEAR LAND FOR NEW
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 19373 02 OF 03 100136Z

PLANTATION, (C) SAWLOG AND SMALL WOOD PROCESSING OF
RESIDUAL GROWTH AND EVENTUALLY OF NEW GROWTH, (D)

ESTABLISHMENT OF ROADS, SCHOOLS, COMMUNITY FACILITIES, TELEPHONE EXCHANGE AND SAWMILL REPAIR FACILITIES, (E) TRAINING FOR TECHNICAL STAFF IN WORK ORGANIZATION, MECHANICAL AND OPERATIONAL CONTROL OF FORESTRY SCHEME, AND (F) CONSULTANT SERVICES IN FIELDS OF PLANTATION DEVELOPMENT, EQUIPMENT MAINTENANCE, ENGINEERING AND FINANCIAL MANAGEMENT AND ACCOUNTING. PROJECT WILL BE CARRIED OUT OVER 10 YEAR PERIOD, HOWEVER, DISBURSEMENTS ARE SCHEDULED FOR SEVEN YEARS. PRODUCTION OF PLANTATION GROWN MATERIAL, THEREFORE, IS EXPECTED TO COME ON LINE FROM YEAR 11 WITH AN AVERAGE OF 80 - 100,000 CU. M. PRODUCTION ANNUALLY WITH HIGHER VALUE WOODS SUCH AS TEAK AND SISSOO SUITABLE FOR FURNITURE, IMPLEMENTS AND TOOLS AND LOWER VALUE TREES BEING USED FOR FUELWOOD AND ROUNDWOOD.

5. TOTAL COST OF PROJECT IS \$13.2 MILLION WITH FOREX ACCOUNTING FOR \$7.9 MILLION AND LOCAL CURRENCY \$5.3 MILLION. OF TOTAL \$7.9 MILLION IN FOREX, BANK HAS BEEN ASKED TO FINANCE \$4.9 MILLION AND OPEC \$3.0 MILLION. GOVERNMENT IS FINANCING LOCAL CURRENCY COSTS, HOWEVER, BILATERAL AND MULTILATERAL SOURCES ARE BEING APPROACHED TO PROVIDE TA GRANTS FOR CONSULTANT SERVICES. TO EXTENT SUCH FINANCING IS OBTAINED, RESULTING SAVINGS FROM AMOUNT OF BANK LOAN ALLOCATED TO CONSULTANT SERVICES WOULD BE CANCELLED. TA GRANT OF \$50,000 WILL BE USED FOR FOREX COST OF STRENGTHENING TRAINING FACILITIES AT INSTITUTE OF FORESTRY AT HETAUDA. MAJOR EMPHASIS IS ORIENTATION OF TRAINING TOWARD PRACTICAL SKILLS. PROJECT WILL ALSO PROVIDE IMPROVED TRAINING FACILITIES FOR FORESTRY SECTOR AS WHOLE TO ENABLE IT TO EXPAND ITS DEVELOPMENT ACTIVITIES TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 19373 02 OF 03 100136Z

IMPLEMENT NATIONAL FORESTRY PLAN.

6. PROCUREMENT WILL BE CARRIED OUT UNDER BANK'S GUIDELINES FOR PROCUREMENT. COMPONENTS EXCEEDING \$100,000 WILL BE SUBJECT TO INTERNATIONAL COMPETITIVE BIDDING AND WILL INCLUDE SUCH ITEMS AS CRAWLER TRACTORS, SAW-MILLING EQUIPMENT, ELECTRIC GENERATORS AND WORKSHOP EQUIPMENT. IN INTEREST OF STANDARDIZATION EQUIPMENT PURCHASED AFTER YEAR FOUR MAY BE PROCURED FROM ORIGINAL SUCCESSFUL BIDDER. PROJECT WILL FINANCE THREE TRAINING ADVISORS EACH FOR TWO YEAR PERIOD TO STAFF FORESTRY TRAINING INSTITUTE. IN ADDITION, THREE CONSULTANTS WILL BE ENGAGED: PLANTATION DEVELOPMENT EXPERT FOR THREE YEARS, EQUIPMENT MAINTENANCE ENGINEER TWO YEARS AND FINANCIAL MANAGEMENT AND ACCOUNTING CONSULTANT FOR TWO YEARS FOR A TOTAL OF SEVEN MAN YEARS. CONSULTANTS WILL BE ENGAGED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES

OF CONSULTANTS.

7. FOREST PRODUCTS DEVELOPMENT BOARD (FPDB), EXECUTING AGENCY FOR PROPOSED PROJECT, WAS ESTABLISHED IN 1976 TO CARRY OUT DEVELOPMENT FUNCTIONS IN FORESTRY SECTOR. IT IS SEMI-AUTONOMOUS AGENCY WITH MINISTRY OF FORESTS, AND IS FUNDED BY BUDGETARY GRANTS AND LOANS EXTENDED BY GOVERNMENT AS WELL AS PROCEEDS OF SALES OF TIMBER, FUEL-WOOD AND OTHER FOREST PRODUCTS. ITS RECENT ORGANIZATION HAS NOT PERMITTED IT TO ESTABLISH SYSTEMATIC PROCEDURES FOR BUDGETS, ACCOUNTS AND AUDIT. FINANCIAL MANAGEMENT CONSULTANT TO PROJECT WILL HELDP DEVELOP SUCH PROCEDURES. PROPOSED PROJECT IS EXPECTED TO ENHANCE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 19373 03 OF 03 090413Z
ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00
IO-13 INT-05 /113 W

-----115377 090430Z /12

P 090213Z DEC 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8965

INFO AMEMBASSY KATHMANDU PRIORITY

LIMITED OFFICIAL USE SECTION 3 OF 3 MANILA 19373

USADB

FOR NAC AGENCIES

CAPABILITY OF FPDB THROUGH CONSULTANT SERVICES AND PRACTICAL EXPERIENCE TO BE OBTAINED IN MANAGING PROJECT. FPDB INTENDS TO SET UP PROJECT MANAGEMENT OFFICE AT SAGARNATH TO IMPLEMENT PROJECT. OFFICE WILL BE HEADED BY FULL TIME PROJECT MANAGER WHO WILL BE APPOINTED IN CONSULTATION WITH BANK PRIOR TO EFFECTIVENESS OF LOAN.

8. ECONOMIC INTERNAL RATE OF RETURN IS 41 PERCENT OVER 24 YEAR EVALUATION PERIOD AND FINANCIAL INTERNAL RATE OF

RETURN IS 18 PERCENT. PRICES USED IN CALCULATING LATTER ARE LOW BY WORLD STANDARDS, THUS, PROJECTED LEVELS ARE REASONABLE AS BASIS FOR RETURN RATE CALCULATIONS. EMPLOYMENT BENEFITES INCLUDE 850 PERMANENT LABORERS AND 180 FULL TIME TECHNICAL STAFF. AN ADDITIONAL 800 PERSONS WHO ARE FAMILY MEMBERS OF EMPLOYEES WOULD BE AVAILABLE FOR PART-TIME WORK. AN IMPORTANT BENEFIT IS INCREASED FORESTRY YIELDS FROM APPLICATION OF GOOD FORESTRY MANAGE- LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 19373 03 OF 03 090413Z

MENT PRACTICES. ANOTHER IMPORTANT BENEFIT IS THE SAFE- GUARDING OF AN IMPORTANT WATERSHED AREA.

9. USADB COMMENT: NEPAL IS FACING CRITICAL SITUATION OF RAPID DEPLETION OF ITS FOREST RESOURCES THROUGHOUT COUNTRY. MUCH OF THIS HAS BEEN BROUGHT ABOUT BY INDISCRIMINATE AND EXTENSIVE CUTTING OF FORESTS. GOVERNMENT IS NOW DETERMINED TO CHECK THIS TREND. PROPOSED PROJECT IS IN LINE WITH GOVERNMENT'S STRATEGY FOR FOREST DEVELOPMENT. PROPOSED LOAN IS ATTEMPT TO DEMONSTRATE METHODOLOGY FOR REFORESTATION IN 10,000 HA. AREA IN TERA I PLAINS IN HOPE THAT LONG RUN BENEFITS WILL ENHANCE REFORESTATION OF OTHER AREAS IN COUNTRY. GIVEN INEXPERIENCED EXECUTING AGENCY AS WELL AS LONG STANDING PROBLEM OF FORESTRY DEPLETION, USADB SUPPORTS EFFORTS BY BANK AND GOVERNMENT TO RESOLVE SERIOUS PROBLEM. WE BELIEVE THAT ACHIEVEMENT OF PROJECT'S SHORT ERM OBJECTIVES IN REPLANTING 10,000 HA. TRACT IN TERA I TO PROVIDE FUELWOOD AND SAWLUMBER FOR LOCAL CONSUMPTION IS MAJOR UNDERTAKING WITH IMPORTANT IMPLICATIONS FOR FARMERS IN TERA I. CRITICAL ELEMENT IN SUCCESS OF PROJECT IS EXECUTING AGENCY'S ABILITY TO ASSIGN APPROPRIATELY TRAINED PROFESSIONAL PERSONNEL TO IMPLEMENT PROJECT AND GOVERNMENT'S WILLINGNESS TO TAKE EXTREME MEASURES TO SAFEGURAD ITS FOREST RESOURCES AT A TIME WHEN ITS POPULATION DEMANDS INCREASING AMOUNTS OF FOREST PRODUCTS. BENEFICIARIES OF PROJECT WOULD BE FARMERS IN IMMEDIATE VICINITY OF FOREST AREA WHO ARE SMALL LAND HOLDERS AND WHO DEPEND ON FUELWOOD FROM IMMEDIATE AREA. WHILE ECONOMIC AND FINANCIAL RETURNS ARE SATISFACTORY, PROJECT BENEFITS ARE LONG TERM, 10 TO 20 YEARS. NEVERTHELESS, IT IS IMPORTANT THAT NEPAL BEGIN TO SOLVE ITS FORESTRY PROBLEMS WITHOUT DELA IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 19373 03 OF 03 090413Z

A SYSTEMATIC MANNER. USADB BELIEVES PROPOSED PROJECT

IS A REASONABLE APPROACH TO PROBLEM AND, THEREFORE,
RECOMMENDS FAVORABLE NAC ACTION.

10. REQUEST AMEMBASSY KATHMANDU COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO SATE 119795
DATED 3 JULY 1972.
EDMOND

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FORESTRY, MANAGEMENT, LOANS, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MANILA19373
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770457-1167
Format: TEL
From: MANILA USADB
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771273/aaaackga.tel
Line Count: 339
Litigation Code IDs:
Litigation Codes:
Litigation History: Hold (001 Tobacco) added on 4/16/2009 3:39:03 PM by WASHDCMcGoldRJ, Hold (001 Tobacco) removed on 4/16/2009 3:44:59 PM by WASHDCMcGoldRJ (Litigation Hold Lifted)
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 499c2308-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 296097
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR SAGARNATH FORESTRY DEVELOPMENT PROJECT (NEPAL) SUMMARY: ADB MANAGEMENT PROPOSES \$4.9 MILLION EQUI
TAGS: EAID, EFIN, NP
To: STATE
Type: TE
vdkgwkey: odbc://SAS/SAS.dbo.SAS_Docs/499c2308-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

